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Building industrial brand equity by leveraging firm capabilities and co-creating value with customers

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ABSTRACT

Few studies have examined potential impacts of firm's capabilities upon industrial brand equity, and it remains unclear how value co-creation exerts an effect in the capabilities-branding link. This paper reports the findings of an empirical study conducted among 212 Chinese firms regarding the roles of firm's capabilities in value co-creation, customer value and brand equity development in B2B environment. The result indicates that marketing capability and networking capability build up brand equity both directly and indirectly via value co-creation and customer value, while innovation capability positively impacts brand equity indirectly by facilitating value co-creation and improving customer value. The study contributes to literature of industrial branding and value co-creation by probing into capabilities as their determinants. The findings provide managerial implications for building B2B brand equity by leveraging firm's capabilities and co-creating value with customers.

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1. Introduction

The significance of enhancing brand equity for company's success is well documented in the marketing literature (e.g., Backhaus, Steiner, & Lügger, 2011). Branding studies have demonstrated that brand equity is an important concern for business customers in their purchase decision processes. Therefore, it could give rise to similar positive outcomes in B2B setting as observed in B2C setting (Bendixen, Bukasa, & Abratt, 2004; Kotler & Pfoertsch, 2007). Brand equity motivates organizational customers to repurchase, to pay a price premium, to consider brand extensions, and to recommend the brand to others (Bendixen et al., 2004; Michell, King, & Reast, 2001). In addition, successful B2B brands with high levels of brand equity serve as the key for building trust, which is important for the exchange in industrial markets, relevant for the maintenance of a relationship, and finally affects transaction performance, market performance and profitability performance of the firm (Roberts & Merrilees, 2007).

Since branding is an important way to improve business performance, the logical next question should be: how can industrial firms build powerful brands? Unfortunately, while brand management has long been a central tenet of consumer marketing, "only a limited number of studies have been conducted ... to investigate the phenomena of

brand equity in business markets" (Kim & Hyun, 2011, p. 425). In addition, studies on the determinants of B2B brand equity mostly elaborate on the influence of marketing-mix efforts on brand equity (Kim & Hyun, 2011) by following the logic of Brand Value Chain framework (Keller & Lehmann, 2003), and few papers focus on the role of firm's capabilities and value creation in building strong industrial brand.

Capability is a crucial source of organizational competitive advantages based on the Resource-Based View (RBV) (Wernerfelt, 1984). When a firm deeply engrains its capabilities of leveraging and integrating organizational assets and resources within the structure of the firm, these capabilities are difficult to imitate and transfer, thereby offering sustainable competitive advantages (Day, 1994). Numerous studies have examined the impacts of capabilities on overall firm performance and competitiveness (Lin & Wu, 2014). Although building brand equity is an integral part of company's performance outcome, research on the importance of capabilities for industrial brand equity is rather scarce. Little guidance is available to provide insightful managerial implications for B2B brand managers as to building strong brand by leveraging firm's capabilities.

Furthermore, discussions on the nature of and means to create and deliver value are central to business marketing theory and practice (Beverland, 2012). According to the traditional perspective, value is created by one party and consumed by another. However, contemporary marketing literature has increasingly abandoned this perspective, instead considering value as a jointly created phenomenon that emerges in interaction and through integration of resources between actors (Vargo & Lusch, 2004; Vargo, Maglio, & Akaka, 2008). According to the Service-Dominant Logic (SDL) viewpoint, actors are connected through value propositions which are "reciprocal promises of value, operating

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to and from suppliers and customers seeking an equitable exchange" (Ballantyne & Varey, 2006, pp. 344–345), and value is co-created by suppliers and customers. However, the discussions about value co-creation are largely conceptual or case studies. It's still not clear how firm's capabilities impact value co-creation activities and how customer value leads to improved industrial brand equity.

To address the above-mentioned research gaps, this paper attempts to shed some light on the role of innovation, marketing and networking capabilities as key driving forces in promoting value co-creation activities, creating customer value and building brand equity in B2B environment and, in doing so, to provide recommendations about industrial branding strategies. By adopting the views of RBV, SDL and value creation process model presented by Beverland (2012), this study argues that the firm's capabilities can be catalysts to brand equity through customer value co-creation, and makes theoretical contributions to the literature of branding, firm's capability and value co-creation.

This paper is organized as follows. Firstly, we review literature about B2B brand equity, customer value co-creation and firm's capabilities. Then we review conceptual model and articulate research hypotheses. Next, the research design is outlined, followed by the statistical results. Finally, we discuss conclusions and relevant managerial implications, and put forward limitations and future research directions.

2. Theoretical background

2.1. Industrial brand equity

The concept of brand equity was originally developed in B2C market and it is a well-accepted fact that brand equity and brand management are crucial for success in this setting. The authors argue that the same branding concepts are likely to apply in both B2B and B2C contexts (Davis, Golobic, & Marquardt, 2009). Consequently, many studies in various industrial contexts also rely on brand equity concepts developed in B2C marketing literature (e.g., Kuhn, Alpert, & Pope, 2008; Torres & Bijmolt, 2009).

Brand equity is generally defined as the added value of a brand that forms part of a product created in the minds of consumers in response to past investments in the marketing of the brand (Keller, 1998). Customer-based brand equity seems a good starting point to assess brand equity, and it consists of several interrelated dimensions: brand awareness, perceived quality, brand associations and brand loyalty (Aaker, 1991; Keller, 1993, 1998). Scholars argue that these four dimensions can be directly transferable to industrial branding context. Specifically, brand awareness is shown to explain a significant amount of the variance in brand equity in industrial firms (Davis, Golobic, & Marquardt, 2008). It is also argued that B2B brand equity is significantly driven by perceived quality (Bendixen et al., 2004; Chen, Su, & Lin, 2011; McQuiston, 2004; van Riel, de Mortanges, & Streukens, 2005) and brand association (Jensen & Klastrup, 2008). Besides, brand loyalty is often recognized as a dimension or indicator of brand equity in B2B marketing context (Chen et al., 2011).

Recent research indicates that brand equity is of high importance for B2B companies' competitive positions and performance (Backhaus et al., 2011; Kim & Hyun, 2011; Kotler & Pfoertsch, 2007). However, despite the increasing interest on B2B branding, the extant literature remains fragmented, and areas with limited or inconclusive research warrant further examination (Keränen, Piirainen, & Salminen, 2012). Previous studies on B2B branding have primarily focused on identifying differences between branding in consumer versus industrial contexts (e.g., Brown, Bellenger, & Johnston, 2007), implementing branding strategies which have been successfully applied in consumer markets to industrial context (e.g., Kuhn et al., 2008), developing new measurements of brand equity for industrial firms (e.g., Jensen & Klastrup, 2008), and exploring potential benefits of cultivating strong B2B brands (e.g., Ohnemus, 2009; Wise & Zednickova, 2009).

Branding literature also examines the relationships between the dimensions of brand equity and their determinants in industrial marketing. Early studies about antecedents specific to B2B brand equity are exploratory and qualitative in nature (Bendixen et al., 2004; McQuiston, 2004; Michell et al., 2001). Recently researchers have begun to empirically explore limited set of antecedent factors of industrial brand equity, such as: value for the money, distribution performance, promotion and personnel (van Riel et al., 2005); corporate image, product and service quality, price and costs (Cretu & Brodie, 2007); service quality, responsiveness, and empowerment (Roberts & Merrilees, 2007); product quality, service quality, price, differentiation, promise, and trust and credibility (Jensen & Klastrup, 2008); supplier's competence and buyer's purchasing value (Han & Sung, 2008); customer experience (Biedenbach & Marell, 2010); CSR and corporate reputation (Lai, Chiu, Yang, & Pai, 2010); sales force (behavior and personality); product and promotion (Baumgarth & Binckebanck, 2011); customers' perception of employees' behavior (Biedenbach, Bengtsson, & Wincent, 2011); country-of-manufacture and country-of-design (Chen & Su, 2011).

2.2. Customer value co-creation

Creating superior customer value becomes the core purpose and central process of economic exchange (Vargo et al., 2008) and therefore a strategic issue that should be of interest to researchers and practitioners. Particularly, branding literature suggests that customer perceived value can directly contribute to his/her assessment of and loyalty to the brand (e.g., Anderson & Srinivasan, 2003; Han & Sung, 2008; Lam, Shankar, Erramilli, & Murthy, 2004).

In business relationships and networks, value creation may be examined from three perspectives: value creation for the customer, value creation for the supplier, and joint customer–supplier value creation (Ulaga, 2001). The customer perspective relates to how customers perceive superior value in a supplier's offering compared to that of available alternatives. The supplier's perspective recognizes the need to consider customers as key asset of the firm and places emphasis on attracting, developing and retaining customers through management of customer equity. The customer–supplier perspective highlights that value is created through relationships, partnerships and alliances (Ulaga, 2001). In the value co-creation process, resources of the companies involved are combined and new combinations of capabilities are developed, thereby enabling firms to achieve something that none of the parties could have achieved alone.

Amongst, recent research increasingly emphasizes that value emerges not only through the use of the good or service, but also from the reciprocal interaction processes between sellers and buyers (Ballantyne & Varey, 2006; Grönroos, 2011; Payne, Storbacka, & Frow, 2008). In other words, co-creation has become a central tenet in marketing. Value co-creation differs from and extends the value chain concept of Porter (1985) by positing that the customer is not outside of the value creation process as a passive actor in receiving value, but rather participates in the value creation process through interactions with the firm and its partners (Normann & Ramirez, 1993). These interactions can occur in a variety of business processes, ranging from co-production of new products or services, to physical production, assembly, inventorying, distribution, retail, after sales service and usage, and returns (Duray, 2002). This emphasis appears consistent with SDL developed by Vargo and Lusch (2004), which argues that the customer becomes a co-creator of value.

Discussions about value co-creation are primarily conceptual paper or case studies, focusing on the co-creation process. Cova and Salle (2008) apply SDL to solutions marketing, and suggest an approach to co-create value in customer networks based on a switch from customer value proposition to customer network value proposition. Payne et al. (2008) examine the concept of brand relationship experience in the context of co-creation and service-dominant logic. Andreu, Sánchez,

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